Procedure No. 5-10

<u>REVIEW OF PAYROLL PROCESSING</u>

<u>Payroll Processing Audit Routines</u>

1. **Select a payroll sample (or the entire payroll for a specified period) for compliance testwork**. The auditor should be able to specify the size of the sample and the data fields to be tested. It will be helpful if the file can be converted into DBF format.

2. **Stratify payment amounts, hours worked, hourly rates and check dates for unusual trends and exceptions**. This test will enable the auditor to review gross and net pay for unreasonably large balances where activity can be extracted and further reviewed.

3. **Stratify overtime amounts by department and division**. This test will enable the auditor to keep track of overtime costs incurred by City departments and divisions to determine compliance with City policy.

4. **Reconcile salaried employee gross pay from one pay period to the next**. This test will allow the auditor to identify any increases in salary, added employees or additional income. The auditor will then decide whether to investigate the variances.

5. **Compare payroll costs from one period to another**. This test will allow the auditor to pinpoint those employees or sections with unusual transactions during a specified period.

6. **List all hourly employees working more than the total hours available in the week**. This test can point to control weaknesses in the payroll procedures. It may be beneficial to perform this test not only for hours reported over 168 but also for excessive hours. For example, all employees working 126 hours or 18 hour days for 7 days could be extracted for analysis.

7. **Compare payroll data files to human resource data files to detect additional/missing employees and differing salary rates**. This test will allow the auditor to identify any unauthorized payments.

8. **List possible duplicate payments based on the same pay period and employee**.

9. **List possible duplicate payments based on the check date and the absolute value of the check amount**.

10. **List payments in which the net pay is greater than the gross pay**.

11. **Review the sequence of check numbers for gaps or duplicates**.